

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shiawassee County Road Commission	County Shiawassee
Fiscal Year End 12/31/06	Opinion Date May 25, 2007	Date Audit Report Submitted to State June 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

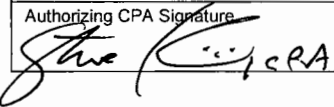
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) Abraham & Gaffney P.C.		Telephone Number 517-351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA		License Number 1101022020

**Shiawassee County Road Commission
Corunna, Michigan**

FINANCIAL STATEMENTS

December 31, 2006

Shiawassee County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Shiawassee County Road Commission, a component unit of Shiawassee County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Shiawassee County Road Commission as of December 31, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2007, on our consideration of the Shiawassee County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Shiawassee County Road Commission financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Shiawassee County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 25, 2007

Shiawassee County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of Shiawassee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section - an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Shiawassee County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Shiawassee County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE SHIAWASSEE COUNTY ROAD COMMISSION AS A WHOLE

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Shiawassee County Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules is located on pages 18 through 20. The other supplementary information begins on page 21 and provides detailed information about the major fund.

Shiawassee County Road Commission

Management's Discussion and Analysis

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Shiawassee County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets increased \$248,413 from \$51,574,108 to \$51,822,521 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The primary reason for the increase of net assets in 2006 was the increase of additions to road infrastructure and purchasing of road equipment.

Net assets as of years ended December 31, 2005 and 2006 follows:

	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 5,488,081	\$ 5,736,229
Capital assets	<u>47,351,555</u>	<u>47,171,889</u>
Total assets	52,839,636	52,908,118
Current liabilities	327,506	352,945
Noncurrent liabilities	<u>938,022</u>	<u>732,652</u>
Total liabilities	<u>1,265,528</u>	<u>1,085,597</u>
Invested in capital assets, net related of debt	46,871,555	46,846,889
Restricted for county roads	<u>4,702,553</u>	<u>4,975,632</u>
Total net assets	<u>\$ 51,574,108</u>	<u>\$ 51,822,521</u>

Changes in Net Assets

This is the fourth year of Governmental Accounting Standards Board Statement No. 34, which required this reporting model. The following table presents comparison between 2005 and 2006 year data.

Shiawassee County Road Commission

Management's Discussion and Analysis

A summary of changes in net assets for the years ended December 31, 2005 and 2006 follows:

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 1,132,833	\$ 905,720
Operating grants and contributions	7,875,739	7,573,482
Capital grants and contributions	778,444	435,354
General Revenues		
Interest	65,686	174,756
Other	40,256	3,406
Special item		
(Loss) on equipment disposal	(142,089)	(107,874)
Total Revenues	9,750,869	8,984,844
Expenses		
Primary roads	940,084	1,537,243
Local roads	510,876	1,821,154
State trunkline	1,083,104	666,809
Equipment - net	850,080	926,952
Administrative - net	668,382	574,784
Infrastructure depreciation	2,960,562	3,201,553
Interest expense	10,111	7,936
Total Expenses	7,023,199	8,736,431
Increase in Net Assets	<u>\$ 2,727,670</u>	<u>\$ 248,413</u>

The Shiawassee County Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes. For the year ended December 31, 2006 the fund balance of the general operations fund increased \$267,363 compared to an increase of \$682,822 in the fund balance for the year ended December 31, 2005. Total operating revenues were \$9,092,718, a decrease of \$800,240 compared to the year ended December 31, 2005. This difference in revenue resulted primarily from a decrease in Federal Aid/Critical Bridge participation of \$505,938, a decrease in Michigan Transportation Funds of \$104,002, a decrease in charges for services of \$228,138 and an increase in interest/rents of 111,913.

Total expenditures were \$8,825,355, a decrease of \$384,781 as compared to last year. This change in expenditures is primarily due to a decrease in primary and local road bridge reconstruction in the amount of \$213,758 and a decrease in primary and local road preservation of \$282,158. There was also a decrease in trunk line maintenance of \$218,458, and a decrease in administrative expense of \$98,768. There were increases in primary and local road maintenance of \$49,861; equipment expense-net of \$223,145 and debt principal payment of \$145,000.

Shiawassee County Road Commission

Management's Discussion and Analysis

A summary of changes in the fund level financial information of the Operating Fund is as follows:

	12/31/05 Operating Fund	12/31/06 Operating Fund
Revenues		
License and permits	\$ 35,861	\$ 34,042
Federal grants	622,756	348,283
State grants	6,192,769	5,857,303
Contributions from local units	1,838,658	1,803,252
Charges for services	1,084,066	855,928
Interest and rents	78,592	190,504
Other	<u>40,256</u>	<u>3,406</u>
Total Revenues	9,892,958	9,092,718
Expenditures		
Primary road	3,418,915	3,404,414
Local road	4,355,593	3,926,687
State trunkline	1,083,104	864,645
Equipment - net	152,150	375,295
Administrative - net	621,191	522,424
Capital outlay	(441,012)	(431,655)
Debt service	<u>20,195</u>	<u>163,545</u>
Total Expenditures	<u>9,210,136</u>	<u>8,825,355</u>
Excess of Revenues over Expenditures	682,822	267,363
Fund Balance - beginning	<u>4,295,210</u>	<u>4,978,032</u>
Fund Balance - ending	<u>\$ 4,978,032</u>	<u>\$ 5,245,395</u>

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$379,348 lower than the original budget. The actual revenue recognized during 2006 was greater than the final amended budget by \$28,547 mainly due to increased funding greater than what was budgeted for Michigan Transportation Funds.

The final amended expenditure budget for 2006 was \$1,283,330 lower than the original budget primarily due to various favorable and unfavorable variances in expenditure line-items throughout the General Operating Fund. The actual expenditures recognized during 2006 were more than the final amended budget by \$455,238. This was primarily due to inexperience in budget preparation resulting in the omission of the calculation for overhead when compiling the amended budget.

Shiawassee County Road Commission

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2006, the Road Commission had invested \$47,171,889 in capital assets. This amount represents a net decrease (including additions, deductions, and reclassifications) of \$179,666 as follows:

	<u>2005</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Land and improvements	\$ 223,248	\$ 225,381
Infrastructure - land improvements	<u>4,289,510</u>	<u>4,378,866</u>
Subtotal	4,512,758	4,604,247
Capital Assets Being Depreciated		
Buildings	2,108,728	2,180,872
Equipment	6,288,105	6,346,547
Depletable assets	153,402	153,402
Infrastructure	<u>64,917,352</u>	<u>67,880,672</u>
Subtotal	<u>73,467,587</u>	<u>76,561,493</u>
Total Capital Assets	77,980,345	81,165,740
Total Accumulated Depreciation	<u>(30,628,790)</u>	<u>(33,993,851)</u>
Total Net Capital Assets	<u>\$ 47,351,555</u>	<u>\$ 47,171,889</u>

This year's major capital asset additions included the following:

Land and improvements	\$ 2,133
Infrastructure - land improvements	89,356
Buildings	72,144
Equipment	
Road	62,358
Shop	28,243
Office	9,614
Engineer	2,348
Infrastructure	
Roads	2,853,094
Bridges	<u>650,970</u>
	<u>\$ 3,770,260</u>

During 2006, the Road Commission traded in and/or disposed of equipment (road, shop, office and engineer) with a purchase amount of \$584,865 related depreciation of \$445,616 and net book loss of \$139,249.

Debt

As of December 31, 2006, the Road Commission had \$325,000 in bonds versus \$480,000 last year, a decrease of 47% as shown below:

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>% of Change</u>
Bonds Payable	<u>\$ 325,000</u>	<u>\$ 480,000</u>	<u>\$ (155,000)</u>	<u>(32%)</u>

Other obligations include accrued compensated absences related to vacation pay and sick leave and related payroll taxes in the amount of \$266,166 as of December 31, 2006. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derives approximately 59% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$5,292,898, 1.60% less Michigan Transportation Fund revenues in 2007. The Road Commission received approximately 19% of its revenues from township contributions during 2006. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2007, we expect to receive at least \$1,270,000 in federal and state aid for road projects. The above items were considered when adopting the budget for 2007. Amounts available for appropriation in the budget are \$9,895,916 an increase of \$806,605 over the 2006 budget of \$9,089,311.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Shiawassee County Road Commission's administrative offices at 701 W. Corunna Avenue, Corunna, Michigan 48817.

BASIC FINANCIAL STATEMENTS

Shiawassee County Road Commission

STATEMENT OF NET ASSETS

December 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,496,665
Investments	2,626,249
Due from other governmental units	
State	902,865
Local	515,851
Inventory	<u>194,599</u>
Total current assets	5,736,229
Noncurrent assets	
Capital assets not being depreciated	4,604,247
Capital assets, net of accumulated depreciation	<u>42,567,642</u>
Total noncurrent assets	<u>47,171,889</u>
TOTAL ASSETS	52,908,118
LIABILITIES	
Current liabilities	
Accounts payable	41,069
Accrued liabilities	41,813
Accrued interest payable	3,597
Current portion of compensated absences	106,466
Current portion of long-term debt	<u>160,000</u>
Total current liabilities	352,945
Noncurrent liabilities	
Advances - State of Michigan	407,952
Noncurrent portion of compensated absences	159,700
Noncurrent portion of long-term debt	<u>165,000</u>
Total noncurrent liabilities	<u>732,652</u>
TOTAL LIABILITIES	<u>1,085,597</u>
NET ASSETS	
Invested in capital assets, net of related debt	46,846,889
Restricted for County Roads	<u>4,975,632</u>
TOTAL NET ASSETS	<u><u>\$ 51,822,521</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

	Governmental Activities
Program Expenses	
Primary Road	\$ 1,537,243
Local Road	1,821,154
State Trunkline	666,809
Equipment - net	926,952
Administrative - net	574,784
Infrastructure depreciation	3,201,553
Interest expense	7,936
	<hr/>
TOTAL PROGRAM EXPENSE	8,736,431
Program Revenues	
Charges for services	905,720
Operating grants and contributions	7,573,482
Capital grants and contributions	435,354
	<hr/>
TOTAL PROGRAM REVENUES	8,914,556
	<hr/>
NET PROGRAM REVENUES	178,125
General Revenue	
Interest	174,756
Other	3,406
Special item	
Loss on equipment disposal	(107,874)
	<hr/>
CHANGE IN NET ASSETS	248,413
Net assets, beginning of the year	<hr/> 51,574,108
Net assets, end of the year	<hr/> <hr/> \$ 51,822,521

See accompanying notes to financial statements

Shiawassee County Road Commission
GOVERNMENTAL FUND BALANCE SHEET

December 31, 2006

	Governmental Fund Types
	General Operating
ASSETS	
Cash and cash equivalents	\$ 1,496,665
Investments	2,626,249
Due from other governmental units	
State	902,865
Local	515,851
Inventory	<u>194,599</u>
TOTAL ASSETS	<u>\$ 5,736,229</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 41,069
Accrued liabilities	41,813
Advances - State of Michigan	<u>407,952</u>
TOTAL LIABILITIES	490,834
FUND EQUITY	
Fund balance	
Reserved for primary road	1,030,657
Reserved for local road	2,206,613
Unreserved - undesignated	<u>2,008,125</u>
TOTAL FUND EQUITY	<u>5,245,395</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 5,736,229</u>

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Year Ended December 31, 2006

Total fund balance - governmental funds \$ 5,245,395

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 81,165,740	
Accumulated depreciation is	<u>(33,993,851)</u>	
Capital assets, net		47,171,889

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Fund Balance Sheet.
Long-term liabilities at year-end consist of:

Bonds payable	325,000	
Accrued interest payable	3,597	
Compensated absences	<u>266,166</u>	
		<u>(594,763)</u>

Net assets of governmental activities \$ 51,822,521

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2006

	<u>General Operating Fund</u>
REVENUES	
License and permits	\$ 34,042
Intergovernmental	8,008,838
Charges for services	855,928
Interest and rents	190,504
Other	<u>3,406</u>
TOTAL REVENUES	9,092,718
EXPENDITURES	
Current	
Primary Road	3,404,414
Local Road	3,926,687
State Trunkline	864,645
Equipment - net	375,295
Administrative - net	522,424
Capital outlay	(431,655)
Debt Service	<u>163,545</u>
TOTAL EXPENDITURES	<u>8,825,355</u>
CHANGE IN FUND BALANCE	267,363
Fund balance, beginning of year	<u>4,978,032</u>
Fund balance, end of year	<u><u>\$ 5,245,395</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Net change in fund balance - total governmental funds **\$ 267,363**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 3,738,885	
Building and equipment depreciation	(577,749)	
Infrastructure depreciation	<u>(3,201,553)</u>	
 Excess of capital outlay over depreciation expense		 (40,417)

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold. (139,249)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.
In the current year, these amounts consist of:

Bond principal retirement - 2004 MTF Refunding Bonds	155,000
--	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

Decrease in accrued interest payable	609	
Decrease in accrued compensated absences	<u>5,107</u>	
		<u>5,716</u>

Change in net assets of governmental activities **\$ 248,413**

See accompanying notes to financial statements.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shiawassee County Road Commission (the "Commission") is a component unit of Shiawassee County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Shiawassee County and maintains over 1,094 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Shiawassee County Road Commission. The Commission is considered a component unit of Shiawassee County, Michigan and is discretely presented in Shiawassee County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Corunna, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Commission's checking accounts, imprest cash, and short-term investments with an original maturity of 90 days or less.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Shiawassee County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 required major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Shiawassee County Treasurer's Office, and in order to make disbursements, the Shiawassee County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The Commission's bank deposits at December 31, 2006, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 417,259	\$ 559,569
Savings and money market accounts	1,079,356	1,079,356
Certificates of deposit	<u>2,626,249</u>	<u>2,626,249</u>
	<u>\$ 4,122,864</u>	<u>\$ 4,265,174</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2006, the Commission's accounts were insured by the FDIC for \$300,000 and the amount of \$3,965,174 was uninsured and uncollateralized.

The cash and cash equivalents caption on the balance sheet includes \$50 in imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

The Commission has adopted a policy that indicates how the Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Commission has adopted a policy that indicates how the Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission has adopted a policy that indicates how the Commission will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The following summarizes the categorization of these amounts as of December 31, 2006:

Cash and cash equivalents	\$ 1,496,665
Investments	<u>2,626,249</u>
	<u>\$ 4,122,914</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 was as follows:

	Balance Jan. 1, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2006
Capital assets not being depreciated				
Land and land improvements	\$ 223,248	\$ 2,133	\$ -	\$ 225,381
Infrastructure - land improvements	<u>4,289,510</u>	<u>89,356</u>	<u>-</u>	<u>4,378,866</u>
Subtotal	4,512,758	91,489	-0-	4,604,247
Capital assets being depreciated/depleted				
Buildings	2,108,728	72,144	-	2,180,872
Equipment -				
Road	5,990,843	62,358	(21,222)	6,031,979
Shop	107,947	28,243	(14,955)	121,235
Office	120,325	9,614	(3,529)	126,410
Engineer	68,990	2,348	(4,415)	66,923
Infrastructure - roads	48,933,643	2,853,094	(509,369)	51,277,368
Infrastructure - bridges	15,983,709	650,970	(31,375)	16,603,304
Depletable assets	<u>153,402</u>	<u>-</u>	<u>-</u>	<u>153,402</u>
Subtotal	73,467,587	3,678,771	(584,865)	76,561,493
Less Accumulated Depreciation/Depletion				
Buildings	(788,631)	(58,534)	-	(847,165)
Equipment -				
Road	(4,546,725)	(525,880)	21,222	(5,051,383)
Shop	(66,549)	(12,073)	14,955	(63,667)
Office	(106,426)	(8,645)	4,017	(111,054)
Engineer	(58,213)	(3,992)	4,415	(57,790)
Infrastructure - roads	(21,245,812)	(2,859,488)	401,007	(23,704,293)
Infrastructure - bridges	(3,663,032)	(342,065)	-	(4,005,097)
Depletion	<u>(153,402)</u>	<u>-</u>	<u>-</u>	<u>(153,402)</u>
Subtotal	<u>(30,628,790)</u>	<u>(3,810,677)</u>	<u>445,616</u>	<u>(33,993,851)</u>
Net Capital Assets				
Being Depreciated	<u>42,838,797</u>	<u>(131,906)</u>	<u>(139,249)</u>	<u>42,567,642</u>
Total Net Capital Assets	<u>\$47,351,555</u>	<u>\$(40,417)</u>	<u>\$(139,249)</u>	<u>\$47,171,889</u>

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 525,880
Indirect Equipment	25,777
Net Administrative Expense	57,467
Infrastructure	<u>3,201,553</u>
	<u>\$ 3,810,677</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: CAPITAL ASSETS - CONTINUED

In the current year there was a reclassification between capital assets not being depreciated and capital assets being depreciated in the amount of \$31,375. This adjustment has been reflected here in the notes and properly excluded from the reconciliation between fund level and government-wide financial statements.

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2006:

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006	Amounts due within one year
Governmental Activities					
2004 MTF Refunding Bonds	\$ 480,000	\$ -	\$ 155,000	\$ 325,000	\$ 160,000
Compensated Absences	<u>271,273</u>	<u>210,281</u>	<u>215,388</u>	<u>266,166</u>	<u>106,466</u>
	<u>\$ 751,273</u>	<u>\$ 210,281</u>	<u>\$ 370,388</u>	<u>\$ 591,166</u>	<u>\$ 266,466</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Bonds payable at December 31, 2006, are as follows:

\$490,000 Michigan Transportation Refunding Bond, Series 2004 A, dated February 18, 2004 due in annual installments ranging from \$160,000 to \$165,000 through May 1, 2008, with interest ranging from 2.0 to 2.3 percent, payable semi-annually. \$ 325,000

Advance Refunding - Prior

On February 18, 2004, the Commission defeased the MMBA Transportation Fund Program Bond, Series 1992 C which was due and payable August 1, 1992 through August 1, 2007. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The Commission issued 2004 Michigan Transportation Fund Refunding Bond in the amount of \$490,000. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Commission's financial statements. At December 31, 2006, bonds due and payable August 1, 2007 through May 1, 2008 for the MMBA Transportation Fund Program Bond, Series 1992 C in the amount of \$170,000 are considered defeased.

Compensated Absences - Vacation and Sick Leave

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave and related payroll taxes represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$106,466 and a long-term liability of \$159,700 at December 31, 2006.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay general long-term debt principal and interest outstanding for the following bonds and installment contracts at December 31, 2006, are as follows:

<u>Year Ending December 31,</u>	<u>2004 MTF Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	160,000	5,395
2008	<u>165,000</u>	<u>1,898</u>
	<u>\$ 325,000</u>	<u>\$ 7,293</u>

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2006, the Road Commission of Shiawassee County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service
Age 55 with 15 or more years of credited service
Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Commission is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2006 the Commission's annual pension cost of \$256,964 for the plan was equal to the Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$10,070,372	\$10,527,570	\$10,819,743
Actuarial accrued liability (AAL)	13,235,700	13,846,831	14,606,711
Unfunded AAL	3,165,328	3,319,261	3,786,968
Funded ratio	76%	76%	74%
Covered payroll	2,003,779	2,118,124	2,073,658
UAAL as a percentage of covered payroll	158%	157%	183%
Annual pension cost	280,709	286,053	256,964
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: CONTINGENT LIABILITIES - CONTINUED

There are certain legal actions potentially pending against the Commission. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the Commission's potential liability, if any. Those actions for which a reasonable estimate can be determined of the Commission's potential liability and that would not be covered by insurance and reserves, if any, are considered by Management and Legal Counsel to be immaterial.

NOTE H: RISK MANAGEMENT

The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, trunkline, excess liability, auto liability, directors' and officers' liability, errors and omissions and physical damage. The Road Commission participates in the County Road Association Self-Insurance Fund for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Shiawassee County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Shiawassee County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund			
Primary Road			
Maintenance	\$ 1,589,855	\$ 1,682,710	\$ 92,855
Preservation -			
Structural improvements	1,647,015	1,721,704	74,689
Local Road			
Construction	1,868,535	1,955,817	87,282
Construction	1,872,450	1,970,817	98,420
State Trunkline			
Maintenance	809,300	864,645	55,345
Equipment			
Operating	270,000	271,269	1,269

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2006:

General Operating Fund	
Reserved for	
Primary Road	\$ 1,030,657
Local Road	<u>2,206,613</u>
	<u>\$ 3,237,270</u>

NOTE K: FLEXIBLE BENEFITS PLAN

In November 1993 the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by Shiawassee County Road Commission.

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 36,720	\$ 33,250	\$ 34,042	\$ 792
Intergovernmental				
Federal sources				
Critical Bridge	500,000	406,553	348,283	(58,270)
State sources				
Motor Vehicle Highway Funds				
Engineering	9,766	9,718	9,718	-0-
Primary road	3,462,082	3,481,405	3,463,146	(18,259)
Local road	1,686,526	1,714,715	1,711,654	(3,061)
Primary urban road	132,117	134,540	134,184	(356)
Local urban road	59,650	60,350	60,190	(160)
Critical Bridge	-	-	65,303	65,303
Negotiated contract	500,000	413,108	413,108	-0-
Local sources				
City and Village	-	-	2,172	2,172
Township contributions	2,045,248	1,770,250	1,770,015	(235)
Other contributions	5,000	15,416	31,065	15,649
Total intergovernmental	8,400,389	8,006,055	8,008,838	2,783
Charges for services				
State Trunkline maintenance				
Direct charges	910,665	829,240	852,644	23,404
Salvage sales	1,000	2,592	3,284	692
Total charges for services	911,665	831,832	855,928	24,096
Interest and rents	94,745	189,628	190,504	876
Other				
Sale of equipment	-	3,406	3,406	-0-
TOTAL REVENUES	\$ 9,443,519	\$ 9,064,171	\$ 9,092,718	\$ 28,547

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Maintenance	\$ 1,830,600	\$ 1,589,855	\$ 1,682,710	\$ (92,855)
Preservation - Structural improvements	2,284,116	1,647,015	1,721,704	(74,689)
Total primary road	4,114,716	3,236,870	3,404,414	(167,544)
Local road				
Maintenance	2,032,983	1,868,535	1,955,817	(87,282)
Preservation - Structural improvements	2,203,573	1,872,450	1,970,870	(98,420)
Total local road	4,236,556	3,740,985	3,926,687	(185,702)
State Trunkline				
Maintenance	910,665	809,300	864,645	(55,345)
Equipment				
Direct	1,306,000	1,276,900	1,223,569	53,331
Indirect	470,441	482,975	475,936	7,039
Operating	225,000	270,000	271,269	(1,269)
Less: Equipment rental	(1,825,079)	(1,755,100)	(1,595,479)	(159,621)
Total equipment	176,362	274,775	375,295	(100,520)
Administrative				
Administration	707,325	644,835	604,429	40,406
Less:				
Handling charges	(500)	(455)	(389)	(66)
Overhead - State	(81,722)	(68,000)	(73,227)	5,227
Purchase discount	(7,000)	(8,390)	(8,389)	(1)
Total administrative	618,103	567,990	522,424	45,566

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL - CONTINUED

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES - CONTINUED				
Capital outlay				
Capital outlay	\$ 173,500	\$ 184,405	\$ 176,841	\$ 7,564
Less:				
Depreciation and depletion	(740,000)	(607,453)	(608,196)	743
Trade in allowance	-	(300)	(300)	-0-
Total capital outlay	(566,500)	(423,348)	(431,655)	8,307
Debt service				
Principal payments	155,000	155,000	155,000	-0-
Interest payments	8,545	8,545	8,545	-0-
Total debt service	163,545	163,545	163,545	-0-
TOTAL EXPENDITURES	<u>\$ 9,653,447</u>	<u>\$ 8,370,117</u>	<u>\$ 8,825,355</u>	<u>\$ (455,238)</u>

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2006

TOTAL REVENUES	\$ 9,092,718
TOTAL EXPENDITURES	<u>8,825,355</u>
CHANGE IN FUND BALANCE	267,363
Fund balance, beginning of year	<u>4,978,032</u>
Fund balance, end of year	<u><u>\$ 5,245,395</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 4,667,889	\$ 3,454,810	\$ 970,019	\$ 9,092,718
TOTAL EXPENDITURES	<u>3,766,023</u>	<u>4,395,882</u>	<u>663,450</u>	<u>8,825,355</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	901,866	(941,072)	306,569	267,363
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	540,576	-	540,576
Optional transfers out	<u>(540,576)</u>	<u>-</u>	<u>-</u>	<u>(540,576)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(540,576)</u>	<u>540,576</u>	<u>-0-</u>	<u>-0-</u>
CHANGE IN FUND BALANCE	361,290	(400,496)	306,569	267,363
Fund balance, beginning of year	<u>669,367</u>	<u>2,607,109</u>	<u>1,701,556</u>	<u>4,978,032</u>
Fund balance, end of year	<u>\$ 1,030,657</u>	<u>\$ 2,206,613</u>	<u>\$ 2,008,125</u>	<u>\$ 5,245,395</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 34,042	\$ 34,042
Intergovernmental				
Federal sources	-	348,283	-	348,283
State sources	4,016,950	1,840,353	-	5,857,303
Local sources	627,441	1,174,650	1,161	1,803,252
Total intergovernmental	4,644,391	3,363,286	1,161	8,008,838
Charges for services				
State Trunkline				
Direct charges	-	-	852,644	852,644
Salvage sales	-	-	3,284	3,284
Total charges for services	-0-	-0-	855,928	855,928
Interest and rents	23,498	91,524	75,482	190,504
Other				
Gain on sale of equipment	-	-	3,406	3,406
TOTAL REVENUES	<u>\$ 4,667,889</u>	<u>\$ 3,454,810</u>	<u>\$ 970,019</u>	<u>\$ 9,092,718</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Preservation -				
Structural improvements	\$ 1,721,704	\$ 1,970,870	\$ -	\$ 3,692,574
Maintenance	1,682,710	1,955,817	-	3,638,527
State Trunkline	-	-	864,645	864,645
Equipment Expense - Net	119,006	189,374	66,915	375,295
Administrative Expense - Net	242,603	279,821	-	522,424
Capital Outlay - Net	-	-	(431,655)	(431,655)
Debt Service	-	-	163,545	163,545
TOTAL EXPENDITURES	<u>\$ 3,766,023</u>	<u>\$ 4,395,882</u>	<u>\$ 663,450</u>	<u>\$ 8,825,355</u>

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2006

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 223,248	\$ 2,133	\$ -	\$ 225,381
Infrastructure - land improvements	4,289,510	89,356	-	4,378,866
Subtotal	4,512,758	91,489	-0-	4,604,247
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	2,108,728	72,144	-	2,180,872
Equipment				
Road	5,990,843	62,358	(21,222)	6,031,979
Shop	107,947	28,243	(14,955)	121,235
Office	120,325	9,614	(3,529)	126,410
Engineer	68,990	2,348	(4,415)	66,923
Infrastructure - Roads	48,933,643	2,853,094	(509,369)	51,277,368
Infrastructure - Bridges	15,983,709	650,970	(31,375)	16,603,304
Depletable assets	153,402	-	-	153,402
Subtotal	73,467,587	3,678,771	(584,865)	76,561,493
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(788,631)	(58,534)	-	(847,165)
Equipment				
Road	(4,546,725)	(525,880)	21,222	(5,051,383)
Shop	(66,549)	(12,073)	14,955	(63,667)
Office	(106,426)	(8,645)	4,017	(111,054)
Engineer	(58,213)	(3,992)	4,415	(57,790)
Infrastructure - Roads	(21,245,812)	(2,859,488)	401,007	(23,704,293)
Infrastructure - Bridges	(3,663,032)	(342,065)	-	(4,005,097)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(30,628,790)	(3,810,677)	445,616	(33,993,851)
Net Capital Assets Being Depreciated	42,838,797	(131,906)	(139,249)	42,567,642
Total Net Capital Assets	\$ 47,351,555	\$ (40,417)	\$ (139,249)	\$ 47,171,889

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of Shiawassee County Road Commission as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shiawassee County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shiawassee County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shiawassee County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shiawassee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described below.

2006-1 BUDGETS

Condition: As noted in the financial statements, some of the activities of the Road Commission exceeded the amounts appropriated.

Criteria: It is a violation of Michigan Public Act 621 of 1978, as amended, for the Road Commission to incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Effect: The Road Commission has not maintained adequate control over budgetary compliance in accordance with State law.

Recommendation: We recommend the Road Commission monitor expenditures against adopted budgets on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

This report is intended solely for the information and use of management and the Board of County Road Commissioner's and the pass-through grantors and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 25, 2007